UN environment programme | finance initiative

Principles for **Responsible Banking**

Guidance for banks

Version 1 (June 2021)

# Biodiversity Target-setting
## Technical Annex

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**Principles for Responsible Banking**

## Version 1.0 June 2021

This Technical Annex accompanies the *Principles for Responsible Banking Primer Guidance for Banks on Biodiversity Target Setting*, Version 1 of June 2021. It is issued in a separate format that is more easily updatable, given the rapid developments in this space.

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# A. Acronyms

| | |
|---|---|
| **AR3T** | Avoid, Reduce, Regenerate, Restore, and Transform |
| **AZE** | Alliance for Zero Extinction |
| **AUM** | Assets Under Management |
| **B@B** | Business@Biodiversity Platform |
| **BBOP** | The Business and Biodiversity Offsets Programme |
| **BDP** | Biodiversity Disclosure Project |
| **BFFI** | Biodiversity Footprint Financial Institutions |
| **BIM** | Biodiversity Impact Metric |
| **BoD** | Board of Directors |
| **CAPEX** | Capital expenditures |
| **CARMC** | Capital Allocation & Risk Management Committee |
| **CBD** | Convention on Biological Diversity |
| **CISL** | University of Cambridge Institute for Sustainability Leadership |
| **ENCORE** | Exploring Natural Capital Opportunities, Risks and Exposure |
| **ER** | Environmental Return |
| **ESG** | Environmental, Social and Governance |
| **ESR** | Environmental & Social Risk |
| **F@B** | Finance@Biodiversity Community |
| **FfB** | Finance for Biodiversity Pledge and Foundation |
| **GBF** | Global Biodiversity Framework |
| **GBS** | Global Biodiversity Score |
| **GDP** | Gross Domestic Product |
| **GRI** | Global Reporting Initiative |
| **GSTC** | Global Sustainable Tourism Council |
| **IBAT** | Integrated Biodiversity Assessment Tool |
| **IFC** | International Finance Corporation |
| **IMO** | International Maritime Organization |
| **IPBES** | Intergovernmental Science Policy Platform on Biodiversity and Ecosystem Services |
| **IUCN** | International Union for Conservation of Nature |
| **KPI** | Key Performance Indicator |
| **MARPOL** | The International Convention for the Prevention of Pollution from Ships |
| **MRV** | Measurement, Reporting, and Verification |
| **MUFG** | Mitsubishi UFJ Financial Group |
| **NCFA** | Natural Capital Finance Alliance |
| **OECD** | Organisation for Economic Co-operation and Development |
| **OPEX** | Operating expenses |

| | |
|---|---|
| **PBAF** | Partnership for Biodiversity Accounting Financials |
| **PACTA** | Paris Agreement Capital Transition Assessment |
| **PCR** | Position & Client Risk |
| **PRB** | Principles for Responsible Banking |
| **PRI** | Principles for Responsible Investment |
| **PS** | Performance Standards (IFC) |
| **RSPO** | Roundtable on Sustainable Palm Oil |
| **SBE** | Sustainable Blue Economy |
| **SBTs** | Science-based Targets for Nature |
| **SBTN** | Science-based Targets Network |
| **SDGs** | Sustainable Development Goals |
| **SI** | Social Inclusion |
| **SLL** | Sustainability Linked Loan |
| **SMART** | Specific, Measurable, Achievable, Relevant, and Time-bound |
| **SME** | Small and Medium-Sized Enterprises |
| **SRI** | Sustainability, Research and Investment Solutions |
| **STAR** | Species Threat Abatement and Restoration |
| **TCFD** | Task Force on Climate-related Financial Disclosures |
| **TNFD** | Taskforce on Nature-related Financial Disclosures |
| **UNCCD** | United Nations Convention to Combat Desertification |
| **UNEP FI** | United Nations Environment Programme Finance Initiative |
| **UNEP-WCMC** | UN Environment Programme World Conservation Monitoring Centre |
| **UNESCO** | United Nations Educational, Scientific and Cultural Organization |
| **UNFCCC** | United Nations Framework Convention on Climate Change |
| **WEF** | World Economic Forum |
| **WWF** | World Wide Fund for Nature |

# B. Definitions

**Additional Conservation Actions:** A broad range of activities intended to benefit biodiversity, where the effects or outcomes can be challenging to quantify.[1]

**Biodiversity:** Variety of living organisms from all sources including, terrestrial, marine, and aquatic ecosystems and the ecosystems they are part of. This includes diversity within species, between species, and ecosystems.[2]

**Ecosystems:** A dynamic complex of plant, animal and microorganism communities and their non-living environment interacting as a functional unit.[3]

**Ecological Integrity:** The ability of an ecological system to support and maintain a community of organisms that has species composition, diversity, and functional organisation comparable to those of natural habitats within a region. An ecological system has integrity when its dominant ecological characteristics (e.g., elements of composition, structure, function, and ecological processes) occur within their natural ranges of variation and can withstand and recover from most perturbations imposed by natural environmental dynamics or human disruptions.[4]

**Ecosystem Service:** Ecosystem services are the benefits people obtain from ecosystems. These include provisioning services such as food and water; regulating services such as flood and disease control; cultural services such as spiritual, recreational, and cultural benefits; and supporting services, such as nutrient cycling, that maintain the conditions for life on Earth.[5]

**Nature:** All non-human living entities and their interaction with other living or non-living physical entities and processes.[6] This definition recognises that interactions bind humans to nature, and its subcomponents (e.g. species, soils, rivers, nutrients), to one another. This definition also recognises that air pollution, climate regulation and carbon are part of 'nature' more broadly, and therefore, acting for nature includes acting on issues related to climate change as well (e.g. ING case study in the main text).

**Nature Based Solutions:** Are defined by IUCN as "actions to protect, sustainably manage, and restore natural or modified ecosystems, that address societal challenges effectively and adaptively, simultaneously providing human well-being and biodiversity benefits".[7]

1 Rio Tinto (2008). Rio Tinto and Biodiversity: Biodiversity Offset Design.
2 CBD (2006). Convention on Biological Diversity. Text of the Convention
3 IPBES (2021). Glossary
4 Parrish et al. (2003). Are we conserving what we say we are? Measuring ecological integrity within protected areas
5 Millennium Ecosystem Assessment (2005). Ecosystems and Their Services
6 IPBES (2010). Global Assessment.
7 IUCN (2020). Nature based Solutions

**Natural Capital:** Natural capital is a way of thinking about nature as a stock that provides a flow of benefits to people and the economy. It consists of natural capital assets such as water, forests and clean air.[8]

**Nature Positive:** Halting and reversing nature loss from a measured baseline of 2020, through increasing the health, abundance, diversity and resilience of species, populations and ecosystems so that by 2030 nature is visibly and measurably on the path of recovery.[9]

**Net Gain:** Additional conservation outcomes that can be achieved for the biodiversity values for which the critical habitat was designated. They can be achieved through the development of a biodiversity offset or implementation of programs […] to enhance habitat, and protect and conserve biodiversity.[10]

**Net Positive Impact:** Net Positive Impact (NPI) on biodiversity is a target for project outcomes in which the impacts on biodiversity (i.e. the variety of ecosystems and living things) caused by the project are outweighed by the actions taken to avoid and reduce such impacts, rehabilitate affected species/landscapes and offset any residual impacts.[11]

**No Net Loss:** The point at which project related impacts on biodiversity are balanced by measures taken to avoid and minimise the project's impacts, to undertake on site restoration and finally to offset significant residual impacts.[12]

**Net Zero:** To hold off some of the worst climate impacts, and avoid irreversible damage to our societies, economies and the natural world, we must hold temperature rise to 1.5°C above pre industrial levels. This requires halving greenhouse gas emissions by 2030 and hitting net zero emissions by 2050.[13]

8 NCFA (2021). What is Natural Capital and why is it important?
9 WWF (2021). Nature Positive. Nature Deal
10 IFC (2012). International Finance Corporation's Guidance Note
11 NPI Alliance (2015). Net Positive Impact for biodiversity: The conservation case
12 IFC (2012). International Finance Corporation's Guidance Note 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources
13 SBT (2021). Business ambition for 1.5°c

# C. The MRV Challenge—Measurement, Reporting and Verification of biodiversity

To implement sustainable MRV systems for biodiversity, it is crucial to understand the limitations and challenges and complexity of biodiversity data. Banks committed to action and implementing biodiversity-friendly portfolios need reliable information on the state and scale (data at finer scales) of biodiversity (past and present) in the company's operations and the direct and indirect threats and pressures on biodiversity. This information is critical to plan, monitor and mitigate risks and to set biodiversity-related targets and have good data management responses for insight into changes that need to be made.

Increasing regulations and expectations on non-financial disclosures from organisations like Corporate Sustainability Reporting Directive (CSRD) and Sustainable Finance Reporting Directive (SFRD) may put more pressure on banks to produce reliable corporate biodiversity performance indicators to report. Inaccurate or unreliable data places banks at risk, for example, through failure to comply with new laws around biodiversity disclosure that may be implemented.

The complexity and uncertainty within digitisation of biodiversity data and complexity in different sampling methodologies has meant biodata has lagged in other areas such as climate data. Obtaining accurate and reliable measurements that can be used for analysis and to inform financial decisions has been difficult, as there are currently no industry-wide agreed metrics or requirements for corporate disclosure. Several organisations are working to help bridge that data gap. The TNFD, PBAF and Align projects - amongst others - are working to provide more consistency.

A useful starting point is the ENCORE open-source database on environmental risks, opportunities and exposures and impacts. Other tools include IBAT, SPOTT, Trase and Forest 500. While not a substitute for local "on the ground data", these tools are an important building block to help banks establish SMART targets for measuring, reporting, and verifying biodiversity-related impacts- which and will be critical if they are to move

towards more nature-positive portfolios. While these tools are welcome, they can only be used as a proxy for robust data collected on the ground. They can serve as a starting point but must not be used as a reliable source of impact on biodiversity as they are primarily based on modelling.

Challenges in MRV can be overcome if clear, achievable targets are set and followed. New technologies such as AI, IoT and blockchain responses are being developed to help alleviate the pressures of unreliable data in MRV. For example, blockchain helps create a more transparent and verifiable supply chain through an immutable decentralised database. Satelligence has also been working on tracking palm oil and deforestation using satellite data and AI. Data chains from the point of creation to where the data point enters financial decision-making are different for biodiversity than for many other assets[14]]. Nature or biodiversity data is collected by sensors, and its subjects are living creatures, not economic actors. While this does make biodiversity data highly complex, it also presents an ideal use case for AI learning algorithms to detect changes in biodiversity patterns over time concerning a specific investment.

Setting sector or sub-sector specific targets can help banks overcome the spatial data problems associated with biodiversity data using a two-step approach. The first and more manageable step is to have an exclusion list and portfolio assessment. WWF 'Assessing Portfolio Impacts tools', can help in finding red flags on certain areas of activity at a sector or geographical level. In the second step, banks need to set nature positive targets to promote activity outside the exclusion lists, which can be **science-based** yet also translated into revenue and risk-related targets.

14 Green Digital Finance Alliance (2020). Fintech for Biodiversity: A Global Landscape

# D. Important tools and resources

General tools and resources of interest to PRB Signatories related to biodiversity target-setting:

| Key Themes | Document | Provided By | Description |
|---|---|---|---|
| Overview | CBD Global Biodiversity Outlook | Convention on Biological Diversity | Global Biodiversity Outlook is a periodic report that summarises the latest data on the status and trends of biodiversity and draws conclusions relevant to the further implementation of the Convention. |
| | Beyond Business as Usual | UNEP FI, UN WCMC, Natural Capital Finance Alliance and Global Canopy | Sets out a case for biodiversity targets in finance, with an initial approach to enable financial institutions to set evidence-based biodiversity targets aligned with international policy developments. |
| | Finance for Biodiversity Pledge & Overview of Biodiversity Initiatives for Finance prepared with UNEP FI and PRI | UNEP FI, PRI, and Finance@Biodiversity | The signatories of the Finance for Biodiversity Pledge, together with UNEP FI, the PRI and the Finance@Biodiversity Community, have created an overview of the main biodiversity-related initiatives developed for financial institutions. |
| | Partnership Biodiversity Accounting Financials (PBAF) | PBAF | The Partnership for Biodiversity Accounting Financials (PBAF) is a partnership of financial institutions that work together to explore the opportunities and challenges surrounding the assessment and disclosure of the impact on biodiversity associated with their loans and investments. |
| | The EU Business @ Biodiversity Platform | European Commission | The EU B@B Platform provides a range of resources to facilitate business innovation in the business and biodiversity arena and help businesses better account for their impacts and dependencies on biodiversity and natural capital. See also EU Business @ Biodiversity Navigation Wheel: Assessment of Biodiversity Measurement Approaches for Businesses and Financial Institutions. |

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| **Target setting** | Science Based Targets Network (SBTN) Initial Guidance | SBTN | This initial guidance on Science Based Targets (SBTs) for nature is a first step toward integrated SBTs for all aspects of nature: biodiversity, climate, freshwater, land, and ocean. |
| | Science Based Targets initiative (SBTi) framework | SBTN | Provides stepwise guidance and recommendations for setting SBTs for climate. |
| **Measurement and metrics** | ENCORE tool | Natural Capital Finance Alliance | Provides companies with the ability to visualise natural capital dependencies and impacts and a new module that helps financial institutions understand how they can move towards potential portfolio alignment with global biodiversity goals related to the agriculture and mining sectors. |
| | Aligning Biodiversity Measures For Business collaboration | UN WCMC | Collaboration to align corporate biodiversity measurement approaches to support private sector decision making. The Align project builds from this collaboration to develop recommendations for a standard on biodiversity measurement and valuation. |
| | IPBES Global Assessment | IPBES | A Global Assessment Report on Biodiversity and Ecosystem Services from IPBES. |
| | Assessment of biodiversity measurement approaches for businesses and financial institutions EU | European Commission and Business@Biodiversity | Provides a Decision Tree to help determine measurement approaches. |

**Additional resources** and available tools to explore the key themes mentioned in the guidance document:

| Key themes | Document | Provided By | Description |
|---|---|---|---|
| **Nature positive finance** | Assessing Portfolio Impacts tools | WWF | Assessing Portfolio Impacts: Tools to Measure Biodiversity and SDG Footprints of Financial Portfolios - targeted to raise awareness of the importance of impact assessment and the value of footprint tools in the investor community. |
| | Footprint for Change | Global Footprint Network | Provides environmental risk data and analysis to support investment decisions, credit ratings and country risk assessments. |

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| Nature positive by 2030 paper | One Earth | Restoring nature while meeting human needs requires a bold vision, including mainstreaming biodiversity conservation in society. This paper presents a framework that could support this: the Mitigation and Conservation Hierarchy. |
| CISL Handbook for nature related financial risks | The University of Cambridge Institute for Sustainability Leadership (CISL) | This handbook contains a framework for identifying nature related financial risks. |
| WWF SIGHT Spatial Finance | WWF | Through the application of the WWF SIGHT data and tool, WWF UK has been developing case studies and engagement with the finance sector for a number of years. |
| SPOTT | ZSL | ZSL supports the financial sector and supply chain stakeholders to manage ESG risk through transparency assessments of soft commodity producers and traders. |
| WWF Aligning Finance for One Planet | WWF | A framework for aligning finance for one planet across all planetary boundaries. |
| IUCN Conservation Finance | IUCN | Key resources and reports by IUCN relating to biodiversity conservation finance. |
| IUCN Biodiversity Indicators & STAR metric | IUCN | A report to help businesses develop robust and relevant biodiversity indicators, along with an explanation of IUCN's STAR metric that measures the contribution that investments can make to reduce species extinction risk. |
| InVEST | Natural Capital Project | Free, open source models used to map and value the goods and services from nature. Enables users to assess trade offs associated with alternative management choices and to identify areas for investment in natural capital. |
| OPAL | Natural Capital Project | Enables users to estimate the impacts of development activities on terrestrial ecosystems and related ecosystem services, and to select mitigation measures. |
| Biodiversity Footprint for Financial Institutions (BFFI) | ASN | The Biodiversity Footprint for Financial Institutions (BFFI) is designed to provide an overall biodiversity footprint of the economic activities a financial institution invests in. |
| Global Critical Habitat screening layer (version 1.0) | UNEP WCMC | Identifies areas of likely or potential critical habitat, as defined by the International Finance Corporation Performance Standard 6 (IFC PS6). |

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| | IBAT | IBAT Alliance | Portal compiling globally authoritative geospatial data on biodiversity (species, Key Biodiversity Areas, protected areas) in an easy to use online decision support and mapping tool. |
| | Open Data Cube | Six partners from across government and research | Provides tools for accessing, managing, and analysing large quantities of Earth observation (GIS) data. |
| **Deforestation free portfolios** | Sustainable finance: How can we create a finance system that incentivises and rewards long-term thinking? | Cambridge Institute for Sustainability Leadership | Sustainable finance: How can we create a finance system that incentivises and rewards long term thinking. |
| | Forest Report: Fast, accurate, and scaleable deforestation monitoring software | Map Hubs | Provides automated deforestation monitoring across supply chains for companies and investors. |
| | Securely manage deforestation risk in commodity supply chains | World Resources Institute | Provides data and tools for monitoring forests. |
| | Deforestation tools assessment and gap analysis | Storebrand | This report aims to support investors to manage deforestation risks in a systematic manner, by identifying relevant tools and data gaps and presenting options for integrating deforestation data into existing systems for ESG and risk analysis. |
| | Trase Finance | Global Canopy | An open source data platform that helps banks understand their exposure to deforestation risks through financing companies in the agricultural commodities supply chain. |
| | Forest 500 | Global Canopy | A list ranking the most influential companies driving tropical deforestation. |
| **Sustainable blue economy** | Ocean+ | UNEP-WCMC | Provides access to Ocean+ Habitats—an authoritative database on the known extent of ecologically important ocean habitats—and Ocean+ Library, which contains the latest data and online resources on ocean biodiversity. |
| | The OceanFinance-Handbook | World Economic Forum | Report provides a detailed overview of the various opportunities in the SBE, the capital types, perquisites for sustainable financing and types of investment models used in the SBE. |

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| | Sustainable Ocean Business Action Platform | UN Global Compact | The Sustainable Ocean Business Action Platform of the United Nations Global Compact convenes leading actors from business, academia, the UN system and Governments to determine how ocean industries can advance progress towards the Sustainable Development Goals (SDGs). |
| | Ocean Solutions That Benefit People, Nature and the Economy | Ocean panel | Provides a detailed overview of the ocean economy; data driven decision making, mobilising finance, stopping pollution and ocean accounting to reflect the true value of oceans. |
| | Sustainability Policy Framework | Rabobank | Sustainability Policy Framework by Rabobank. |
| **Metrics, measurement and accounting** | Measuring the contributions of business and finance towards the post-2020 global biodiversity framework | CDC Biodiversité | A global biodiversity framework on measuring contributions of business and finance. |
| | Global Biodiversity Score: a tool to establish and measure corporate and financial commitments for biodiversity | CDC Biodiversité | A detailed explanation of the Global Biodiversity Score and how to establish and measure corporate and financial commitments for biodiversity. |
| | Common ground in biodiversity footprint methodologies for the financial sector | CDC Biodiversité | A guide to biodiversity footprint methodologies for the financial sector. |
| | ASN Bank Biodiversity Footprint 2014 -2018 with the Biodiversity Footprint for Financial Institutions | Business@Biodiversity - BFFI Methodology | An explanation of ASN Bank Biodiversity footprint for financial institutions (BFFI). |
| | Antarctic biodiversity informatics (eg-abi) | SCAR | Antarctic Biodiversity Informatics aims to foster the application and development of biodiversity informatics. |
| | Aligning measures review paper | UNEP-WCMC | A review paper with recommendations for policymakers produced as part of the Aligning Biodiversity Measures for Business collaboration. |
| | Assessment of biodiversity measurement approaches for financial institutions | EU B@B | Reviews the evolving landscape of biodiversity measurement approaches by business and financial institutions. |

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|---|---|---|---|
| | Biological diversity protocol | BDP | The BD Protocol further aims to enable any organisation to identify, measure, account for and manage its impacts on biodiversity for various business applications, from site management and internal reporting to external mandatory and/or voluntary disclosures. |
| | The biodiversity navigation tool | EU B@B | The Biodiversity Guidance Navigation Tool is designed to guide users through a biodiversity-inclusive natural capital assessment, following the steps outlined in the Natural Capital Protocol; Frame, Scope, Measure and Value and Apply. |
| | FfB biodiversity pledge guidance document | FfB | Collaborative pledge of over 50 financial institutions committed to collaboration, assessment and reporting on biodiversity impacts. (See Appendix Section C) |

# E. Deep dive into selected tools and resources

## E.1. Finance for Biodiversity Pledge

On 25 September 2020, a group of 26 financial institutions from around the globe launched the Finance for Biodiversity Pledge. They called on global leaders and committed to protect and restore biodiversity through their finance activities and investments in the run-up to the Conference of the Parties (COP 15) to the Convention on Biological Diversity (CBD) in 2021. The number of Pledge signatories has grown since then and, as of June 2021, stands at 55.

Signatories to the Pledge commit to 5 key actions:

## Selecting appropriate metrics

The Finance for Biodiversity Community provides guidance on biodiversity impact measurement approaches that:

1. Are relevant to, and are currently explored or used by, the financial sector,
2. Include all main drivers of biodiversity loss, and
3. Are scientifically robust.

The following measurement approaches meet these criteria and are included in the guide:

**CBF** Corporate Biodiversity Footprint (Iceberg Datalab and I Care Consult as scientific partners)

**BFFI** Biodiversity Footprint Financial Institutions (CREM and PRé Sustainability, together with ASN Bank)

**STAR** Species Threat Abatement and Restoration (IUCN)

**GBSF** Global Biodiversity Score for Financial Institutions (CDC Biodiversité)

**BIA** Biodiversity Impact Analytics (Carbon 4 Finance, CDC Biodiversité)

**ENCORE** Exploring Natural Capital Opportunities, Risks and Exposure (UNEP-WCMC, UNEP FI & NCFA)

An overview of these measurement approaches and how they relate to a range of business applications and asset classes can be found on page 10 of the overview documentation.


Finance for Biodiversity Pledge

Annex on *Assessing Impact* to Pledge Guidance 10

## E.2. EU Business @ Biodiversity

The EU Business @ Biodiversity Platform provides a forum for dialogue and a policy interface to discuss the links between business and biodiversity at an EU level. It was set up by the European Commission with the aim to work with and help businesses integrate natural capital and biodiversity considerations into business practices.

The EU B@B Platform provides a range of resources to facilitate business innovation in the business and biodiversity arena, and help businesses better account for their impacts and dependencies on biodiversity and natural capital. Three workstreams are being progressed within the EU B@B community.

1. **Methods** - Helping companies identify best practice guidance and tools available to support informed business decisions related to biodiversity and natural capital
2. **Pioneers** - Facilitating collaboration between leading financial institutions and businesses to gain deeper understanding from practice, and identify opportunities and solutions to scale up biodiversity considerations in corporate decision-making
3. **Mainstreaming** - Promoting the integration of biodiversity concerns within the decision-making processes of a growing number of businesses and financial institutions across Europe.

The Platform has compiled 16 case studies of real-life application of biodiversity measurement approaches for business and financial institutions.

Over the first half of 2021, a number of detailed papers have been produced by third parties which are useful for banks in respect of developing methodologies to measure impact, dependence, and performance. Three of these third party reports, which are covered in sections E3-E5, are signposted to on the EU B@B Platform alonside a range of other resources.

## E.3. Biodiversity Guidance Navigation Tool

The Biodiversity Guidance Navigation Tool is designed to guide users through a biodiversity-inclusive natural capital assessment, following the steps outlined in the Natural Capital Protocol; Frame, Scope, Measure and Value and Apply. Throughout the steps, the tool suggests several biodiversity-specific tools, resources, and methodologies which can be further explored to assist assessment.

Developed by the Capitals Coalition and UNEP-WCMC, the Navigation Tool complements the Biodiversity Guidance by steering practitioners through a series of interactive questions. The tool also offers supporting resources, tools, methodologies and advice to assist an assessment based on user responses.

Biodiversity constitutes the living component of natural capital and underpins the success of businesses around the world. However, the benefit that biodiversity provides to organisations can be hard to fully understand, and even harder to effectively measure and value.

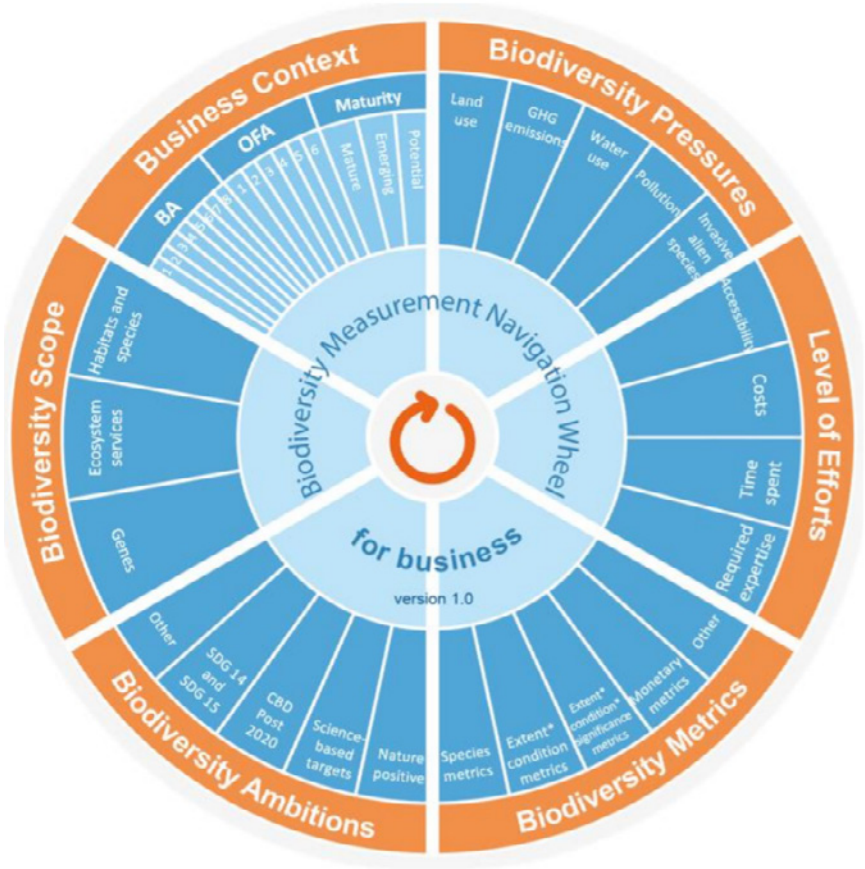
The Cambridge Conservation Initiative and Capitals Coalition developed the Biodiversity

Guidance to accompany the Natural Capital Protocol. It is designed to help businesses and financial institutions to better understand the value they receive from biodiversity, and to apply this knowledge as they make decisions.

## E.4. The Biodiversity Measurement Navigation Wheel 1.0 for Business

Key features of the Biodiversity Measurement Navigation Wheel 1.0 are the following:

- It offers a 'Fast Track' approach as it allows for considering multiple criteria at once;
- It relies on easy-to-use overview tables full of information on how tools can be differentiated on specific criteria;
- It brings in new selection criteria such as information on accessibility, costs and efforts and the maturity level of tools based on the application frequency for specific business contexts;
- It explicitly highlights the possibility to combine different approaches and metrics;
- It acknowledges the different perspective of the financial sector and made a start with an adapted version for that sector;
- It covers 19 biodiversity measurement approaches; and
- It has been built based on (updated) information from tool developers and on the thorough review of 16 quality reviewed and well-elaborated case studies.




Applying the Biodiversity Measurement Navigation Wheel works best by systematically eliminating the approaches that do not fit with a business's preferred selection criteria.

# E.5. Biological Diversity Protocol

The Biological Diversity Protocol (BD Protocol), which is aimed at a technical audience, is an output of the Biodiversity Disclosure Project (BDP) which was started in early 2018 by the National Biodiversity and Business Network (NBBN) of South Africa and hosted by the Endangered Wildlife Trust (EWT). Through close collaboration with a wide range of stakeholders, the BD Protocol has been developed to provide companies with an accounting and reporting framework, helping to consolidate biodiversity impact data in a standardised, comparable, credible and unbiased manner.

The BD Protocol further aims to enable any organisation to identify, measure, account for and manage its impacts on biodiversity for various business applications, from site management and internal reporting to external mandatory and/or voluntary disclosures. For instance, it can be instrumental to companies working on voluntary science-based biodiversity commitments or targets.

The BD Protocol provides guidance on how to:

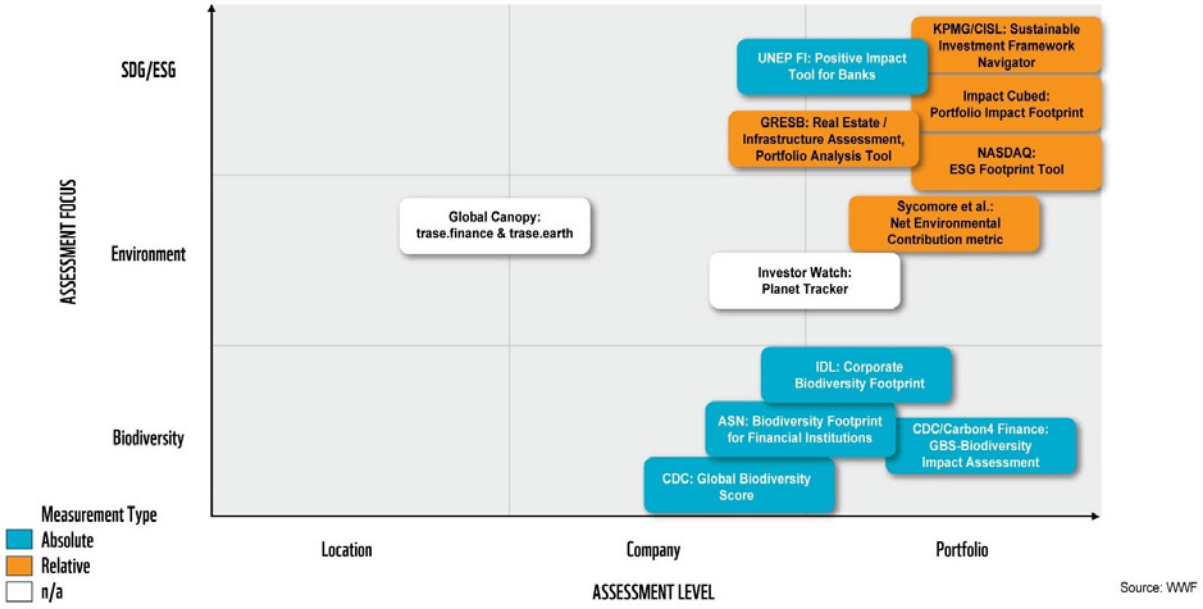
- Select the appropriate organisational and value chain boundary;
- Develop and manage a biodiversity impact inventory;
- Determine material biodiversity impacts;
- Assess impacts on biodiversity, considering the nature of the biodiversity features impacted (i.e. ecosystems and taxa);
- Account for net changes in biodiversity, in accordance with the mitigation hierarchy and the associated equivalency principle;
- Apply the Biodiversity Accounting Framework to build Statements of Biodiversity Position and Performance and account for biodiversity gains and losses over time;
- Validate or verify a biodiversity impact assessment;
- Report on or disclose business impacts on biodiversity in a coherent and meaningful manner.

The BD Protocol is designed to be programme and policy-neutral. It encourages companies to follow its biodiversity accounting and reporting principles. It does not constitute a standard for how a verification or auditing process should be conducted on a biodiversity impact inventory and the associated Statements of Biodiversity Position and Performance. While it can support cost-benefit analysis, risk assessment, reporting to any business function or unit or organisation (e.g. as per GRI guidance15, SDG 14 and 15 reporting) or submissions to various disclosure programmes (e.g. CDP16, disclosure requirements of various stock exchanges), the BD Protocol does not require biodiversity impact information to be used in any specific way and does not aim to provide an exhaustive list of biodiversity impact indicators. Instead it provides a net impact accounting and reporting framework that enables the use of existing indicators on the state of biodiversity: i.e. the measurement of change(s) in the extent and condition of ecosystems and in the target and actual population/habitat sizes of material taxa. Though it may be revised and expanded in the future, the BD Protocol currently draws from the two main biodiversity concepts (i.e. ecosystems and taxa; used by science, existing legislation, policy documents and recognised international guidance (notably IUCN guidance). This means that it does not cover all dimensions of biodiversity.

# E.6. WWF Assessing Portfolio Impacts

The WWF Assessing Portfolio Impacts report identifies seven tools & services that provide impact measurement/footprinting outputs relevant for portfolio investors and other FIs. The figure below shows potential classification of publicly available tools across two important dimensions. Further eleven tools can be found in the WWF report. Even though the report is directed towards portfolio investors and not banks, a detailed description of different tools currently available to assess impact in listed markets can be beneficial. This can help responsible banks assess their listed holdings on both a bank and product level.

Selected Impact-Oriented Tools by Type—Primary List & Honourable Mention



# E.7. ENCORE tool for assessing biodiversity target-setting

ENCORE was developed by the Natural Capital Finance Alliance in collaboration with UNEP-WCMC. The first phase of work was funded by the Swiss State Secretariat for Economic Affairs (SECO) and the MAVA Foundation. This was undertaken as part of the Advancing Environmental Risk Management project. The aim of the project was to help financial institutions better understand, assess, and integrate natural capital risks in their activities. In addition to the development of the knowledge base underpinning ENCORE, this project looked at how financial institutions can apply this information to screen their portfolios for natural capital risk and integrate the insights into their existing risk management processes. Initially pilot studies were carried out with banks in Colombia, Peru, and South Africa.

The current phase of work which is funded by the Swiss Federal Office for the Environment (FOEN), aims to further develop ENCORE to help financial institutions answer the following questions:

- Am I influencing biodiversity through my investment or lending portfolio?
- Am I harming or building the resilience of biodiversity with my investments?
- Is my portfolio in alignment with global/regional biodiversity targets and how much so?

For further information see:

- The ENCORE tool here.
- Exploring Natural Capital Opportunities, Risks And Exposure: A practical guide for financial institutions, available here.
- Integrating Natural Capital in Risk Assessments: A step-by-step guide for banks, available here.

i. Beyond Business as Usual—Target Setting Methodology for Banks.

The 6 step methodology followed in the main document was proposed in the Beyond Business as Usual report to provide an example of how a financial institution can establish baselines to create internal biodiversity targets focusing on the priority sectors relevant to their activities.

This is adapted from the recommendations of the draft Biodiversity Guidance (see above) to accompany the Natural Capital Protocol (developed by the Capitals Coalition and the Cambridge Conservation Initiative, under public consultation), Business Planning for Biodiversity Net Gain: A Roadmap (Business and Biodiversity Offsets Programme, 2018), and A Framework for Corporate Action on Biodiversity and Ecosystem Services (UN Global Compact and IUCN, 2012).

# E.8. Trase Finance

Banks and other financial institutions are exposed to deforestation risks via their loans and investments in companies that produce, trade or use soft commodities such as soy, beef and palm oil. This includes companies at all stages of the supply chain, from plantation operators, commodity traders and processors to manufacturers and retailers across a range of sectors from food and household products to apparel and luxury goods.

Banks committed to reducing deforestation risk exposure face the challenge of obtaining reliable and consistent data. Supply chains are complex and opaque, and there are few requirements on companies to report relevant data. Tracing commodities is difficult because they are often grown in many different locations and aggregated together.

Trase Finance provides the data that banks and investors need to assess their exposure to deforestation risks, integrating a wide range of publicly available and vendor procured data to map financing and ownership of trading companies at scale. It uses Trase's comprehensive supply chain mapping of the international trade in commodities to link exports to specific regions of production and commodity deforestation risk in these areas.

As of February 2021, Trase Finance contains data on over 350,000 companies, of which 6,700 are commodity traders directly exposed to Brazilian soy and beef, and Indonesian palm oil deforestation. Over 27,000 organisations are financial entities such as banks, asset managers and funds with direct equity or debt exposures. The remainder are connected companies, subsidiaries, parents and ultimate parent companies with indirect links to deforestation.

From 2021, Trase Finance will be expanded to cover more than half of the volume of globally traded agricultural commodities.

## E.8.1 Engagement strategies to improve performance

Trase finance can be used by banks as part of their due diligence assessment of clients: to screen loan books and identify hotspots of risk, and to create green products such as sustainability linked loans.

For example, a bank can use Trase Finance to create a watchlist of commodity traders that it finances through corporate loans. These watchlists are customisable using different screening criteria and are private to registered users. Alternatively, banks can use ready-made, public watchlists such as the top 10 commodity traders with the most exposure to Brazilian soy (see figure).

Banks can view the data on traders as a table either as deforestation risk heat maps or as a time series performance graph. Banks can also view profiles of each trader, including its ownership, corporate structure and sources of financing, as well as access information on its deforestation policies. The data is downloadable in an editable format.

With many ESG data providers focused on policies, commitments and reporting, Trase Finance provides banks with the reliable and consistent empirical data on deforestation risk needed to inform engagement strategies and meet commitments to responsible banking.

A Heatmap of Top 10 Commodity Traders With The Most Exposure To Brazil Soy Deforestation Risk can be found via https://trase.finance/watchlists/143f9d6b 37b2 472c 9115 171d753fe287

# F. Tradeable biodiversity offsets—myth or future reality?

## F.1. Can offsets be a part of a strategy to meet biodiversity targets? What's the difference between a biodiversity offset and a climate offset?

Biodiversity offsets are measurable conservation outcomes that result from actions designed to compensate for significant, residual biodiversity loss from development projects. They are intended to be implemented only after reasonable steps have been taken to avoid and minimise biodiversity loss at a development site. Offsets should never be seen as a 'license to pollute' but a last resort in conjunction with a countries' development plans, infrastructure needs and in line with their Nationally Determined Contributions. As of 2017, over 100 countries had already adopted or were developing policies on the use of biodiversity offsets.[15] Many banks have been involved in developing guidance on the very limited appropriate use of offsets and these are accepted as necessary in some cases by e.g. the International Finance Corporation, particularly in a development context. Some learning resources on biodiversity offsets are provided in the Technical Annex.[16]

15 The Biodiversity Consultancy (2017). Government policies on biodiversity offsets. Industry Briefing Note of The Biodiversity Consultancy.

16 A list of useful resources regarding biodiversity offsetting are provided in the Technical Annex

## F.2. What's the difference between carbon and biodiversity offsets?

Biodiversity offsets and carbon offsets are typically designed and managed separately.[17] A carbon offset is a reduction in emissions of carbon dioxide or other greenhouse gases made in order to compensate for emissions made elsewhere. Carbon offsets are measured in tonnes of carbon dioxide equivalent, and often found as a source of finance for nature through the voluntary carbon market. In contrast, biodiversity offsets are part of a mitigation and conservation hierarchy as a last resort option to compensate for the biodiversity impacts of projects and economic activities that cannot be avoided, mitigated or restored. Projects cannot simply "offset" their destruction of site-specific biodiversity by simply "recreating" elsewhere complex natural habitats and ecosystem functions that have taken millennia to develop, whereas a unit of carbon is more fungible.

There are social risks involved in both carbon and biodiversity offsets, which must be handled carefully and in accordance with appropriate guidelines including where relevant Free, Prior and Informed Consent of indigenous and local communities. Some further learning resources on carbon and biodiversity offsets are provided below.

For more learning resources on carbon and biodiversity offsets please follow the links below:

- IFC (2012). Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources.
- CSBI Mitigation Hierarchy Guidance
- BBOP Case Studies - Anglo American
- The Mitigation & Conservation Hierarchy | Home
- Net Positive and the Mitigation Hierarchy | The Biodiversity Consultancy Ltd
- Standard on Biodiversity Offsets Forest Trends (forest trends.org)
- IFC PS 7
- UN REDD Programme UN REDD Programme Collaborative Online Workspace (unredd.net)
- BBOP (2010) Biodiversity offsets and the mitigation hierarchy: a review of current application in the banking sector.
- The Biodiversity Consultancy (2017) Government policies on biodiversity offsets. Industry Briefing Note of The Biodiversity Consultancy.

17 UNEP WCMC (2020). Combined Biodiversity and Carbon Management: Spatial data to support conservation and restoration of biodiversity and carbon rich areas. Technical Briefing Note.

Offsets may be described in different terms in different jurisdictions. In Australia, land clearing activities tend to use offsets. Here, an offset compensates for biodiversity losses arising from native vegetation removal. Offset owners secure and manage offset sites to improve native vegetation condition. The Australian Department of Environment, Land, Water and Planning (DELWP) describes these improved outcomes for biodiversity as 'gain'. An offset can be the ongoing protection and management of:

- a patch of native vegetation
- one or more scattered trees, or
- an area of revegetation.

The following links may be helpful re the Australian regulatory context:

- Offsets for the removal of native vegetation
- About the Biodiversity Offsets Scheme | NSW Environment, Energy and Science
- Biodiversity Offsets Victoria

UN environment programme

finance initiative

United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development. UNEP FI works with more than 400 members—banks, insurers, and investors—and over 100 supporting institutions– to help create a financial sector that serves people and planet while delivering positive impacts. We aim to inspire, inform and enable financial institutions to improve people's quality of life without compromising that of future generations. By leveraging the UN's role, UNEP FI accelerates sustainable finance.

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